

STATE CONTROLLER'S OFFICE  
PERSONNEL and PAYROLL SERVICES DIVISION  
P. O. BOX 942850  
Sacramento, CA 94250-5878

DATE: November 28, 2016

PAYROLL LETTER #16-013

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Debra Spellman, Chief  
Personnel and Payroll Services DivisionRE: **SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in previous calendar year as income in the following tax year. The SAP helps to reduce late reporting and the issuance of corrected Forms W-2. This also results in employees filing fewer amended income tax returns.

For employees receiving non-cash values in November 2016, Personnel Payroll Services Division (PPSD) must receive the Form STD. 676V by December 01, 2016. This will ensure the taxable gross and Social Security/Medicare amounts for non-cash values will be on the 2016 Form W-2. When the Form STD. 676V is received after December 01, 2016, a corrected W-2 will be issued.

### GENERAL INFORMATION

This letter provides reporting instructions for **non-cash**, taxable fringe benefit values that employees receive in December 2016. It also includes a sample employee notification letter to employees regarding SAP provisions ([Payroll Procedures Manual \(PPM\) Section N-175](#) and [Payroll Letter #16-012](#) for 2016 reporting cutoff dates).

### SPECIAL REPORTING INSTRUCTIONS

Complete the **Form STD. 676V Non-USPS Adjustment Request--Values (Fringe Benefit/Employee Business Expense)** using PPM Section N-172.2 procedures. When completing column 9 (issue date), **enter 01/01/17 for all non-cash values that employees receive during December 2016.** The 2017 Form W-2 will reflect these non-cash values.

**NOTE: Fringe benefits reported in November will not have Federal and State income taxes withheld from the December warrant. See [PPM Section Z](#) Attachment N-2 for additional information on the fringe benefit processing under the SAP.**

### MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service **requires** employers (agencies and campuses) to:

- 1) notify affected employees of SAP reporting provisions;
- 2) instruct employees to use the same SAP (for value based benefits received December 2015 through November 2016) when filing personal income tax returns; and
- 3) notify employees of the **SAP no sooner than the receipt of the last paycheck of the calendar year and no later than release of the employee's W-2**

**NOTE:** Agencies and Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

## **REMINDER**

The State's goal is that all employers (agencies and campuses) comply with federal and state employment tax regulations. This requires each agency or campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on a timely, accurate and comprehensive basis. Accurate reporting means proper completion of reporting documents. Comprehensive reporting means that your agency or campus reports all applicable FB/EBEs that are provided to employees, as defined in the PPM Section N-120 – 175 and corresponding Payroll Letters. By complying with these requirements, your agency or campus prevents fines, penalties and assessments levied by tax authorities. Complying with these requirements may prevent costs stemming from retroactivity and corrected Forms W-2.

## **CONTACTS**

For assistance with personnel or payroll related items, agencies and campuses can contact the Customer Contact Center at (916) 372-7200. For questions regarding the Special Accounting Period, please contact John Ochoa at [jochoa@sco.ca.gov](mailto:jochoa@sco.ca.gov).

DS: JD: JO: TSS

ATTACHMENT

## ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 6, 2017

Dear State Employee,

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the following tax year. The SAP reduces late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. Your 2016 Form W-2 will show non-cash values reported by your employing agency or campus that you received in December 2015-November 2016.

### **NON-CASH, TAXABLE FRINGE BENEFITS**

Under the SAP, the following non-cash taxable values are affected:

Value of State Housing	Lottery Sales Recognition
Educational Assistance Program	Rideshare Incentive Award Program
Dues and Memberships	Personal Use of State Vehicle
Loan Assumption Program	Car/Vanpool
Group-Term Life Insurance (Legislators)	Forgivable Loan/Doctoral Incentive Program
Loan Forgiveness Program	Tickets
Out-Placement	Merit Award Program (non-cash)
Scholarships (Fee Waiver Program)	Commuter Highway Vehicle
Vehicle Provided by Third Parties	Uniform Allowance
Miscellaneous Incentive Program	Discount Travel/Transit Pass (non-cash)
Overtime Meal Compensation	Electronic Devices
(i.e., Meal Tickets)	Incentive Provided by Third Parties (non-cash)

### **IRS REQUIREMENTS**

The IRS **requires** that employees use the same accounting period (December through November) when filing tax returns. Employees who itemized deductions related to non-cash, taxable values received in December 2016 would report these values in the following tax year (2017).

### **QUESTIONS**

If you have any questions regarding the Special Accounting Period (SAP), please contact your Human Resources or Accounting Office. **Contact your tax advisor or the IRS regarding tax-filing questions.**